HOUSING MARKET OUTLOOK

Winnipeg CMA

Canada Mortgage and Housing Corporation

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New Home Market

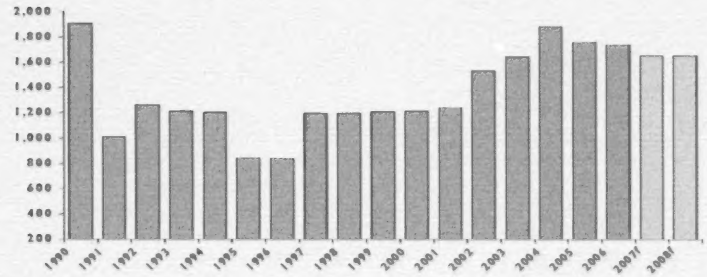
Total starts reach highest point since 1988

In 2006, total housing starts across the Winnipeg Census Metropolitan Area (CMA) surpassed 2,400 units for the fourth consecutive year. Local builders started 2,777 units of all types, an increase of 7.4 per cent from 2005 and the highest annual production since 1989 when 2,977 total starts were recorded across the capital region.

Winnipeg will be one of the few CMAs across the country which will see an increase in residential construction activity from 2006 to 2007. Total housing starts are forecast to reach 3,000 units in 2007, the best performance on record since 1988 when activity reached 4,071 units. Multi-family starts which include semi-detached, row and apartment units will be the major contributor to the gain in total starts in 2007. Total starts will dip to 2,900 units in 2008 due to slightly lower multi-family starts.

Figure 1

Single-Detached Housing Starts



Source: CMHC, CMHC Forecast

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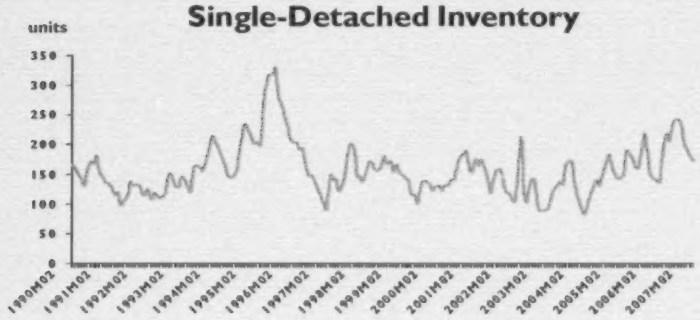
Figure 2



Source: CMHC

Single-detached construction poised for another strong year

Builders across the Winnipeg CMA poured foundations for 1,737 single-detached units in 2006. While this represented a marginal decline from the 1,756 units started in 2005, 2006 was the fourth straight year that single-detached starts exceeded 1,500 units.

Demand for new single-detached units in Winnipeg is being propelled by the continued growth in the number of households and persistently low levels of supply in the resale market. Demand is also being sustained by favourable economic factors. The labour market in Winnipeg is operating at full capacity. At 4.5 per cent, Winnipeg's unemployment rate during 2006 was about 2.2 percentage points below the Canadian average. In addition, 70 per cent of the population aged between the ages to 15 to 64 in Winnipeg is currently employed compared to about 67 per cent for all of Canada.

Given the pace of single-detached construction in the first quarter of 2007, it appears that the market is on track to have another solid performance this year. Single-detached starts from January to March totalled 370 units, representing a 10 unit reduction over the previous year. Meanwhile, at the end of March, 841 units were under construction, about the same number recorded in March of 2004, 2005 and 2006. These figures would appear to indicate that the residential construction industry in Winnipeg is operating at the same level of capacity experienced over the past few years.

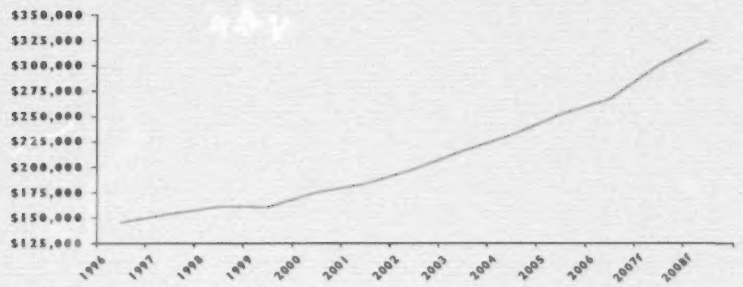
Going forward, single-detached builders will continue to operate at a high level of capacity due to the above cited demand factors. Nevertheless, single-detached starts in 2007 and 2008 will not match the levels seen over the 2004 to 2006 period. CMHC is forecasting single-detached starts of 1,650 units in both 2007 and 2008. The primary factor causing a pullback in the demand for single-detached homes will be the continued escalation in prices. The average price of a newly built single-detached home in the Winnipeg CMA jumped from about $198,382 in 2002 to $267,430 in 2006, representing a compound annual growth rate of 7.8 per cent.

Price gains in the single-detached market have continued into 2007. After the first three months of 2007, the average price of a new single-detached dwelling across the capital region stood at $292,024, an increase of 9.2 per cent over the first quarter of 2006. Higher prices do not mean that demand for homeownership will wane over the forecast period. Rather, an increasing portion of the buyer pool is expected to shift its purchases from single-detached homes to lower priced multi-family units.

Two other factors will act as constraints on activity in 2007. Firstly, at 173 units, the total number of completed and unoccupied units in March 2007 was at its highest point since March 2001 when there were 176 units in inventory. Builders are expected to pull back activity slightly in the coming months to ensure that inventory levels are kept in check. Secondly, with subdivisions in the southwest quadrant of the city reaching built-out conditions, a sustained supply of new lots is not expected to come on line until 2008. The southwest and southeast quadrants which cover the zones of Assiniboine Park, Fort Garry, St. Vital, and St. Boniface tend to have higher priced homes than those in the other parts of the city. The lack of serviced lots in the southwest will put upward pressure on prices in this quadrant as well as the southeast. The average price of a newly absorbed single-detached dwelling across the CMA is forecast to rise to $300,000 in 2007 and reach $325,000 in 2008.

Figure 3

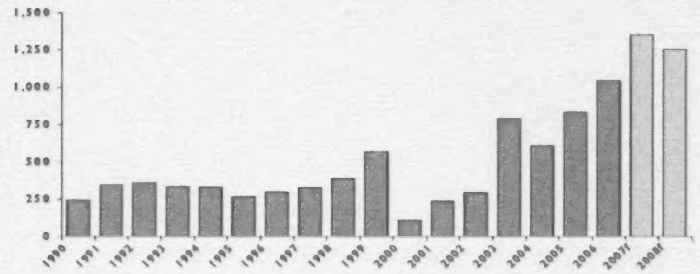
Average Price New Single-Detached



Source: CMHC, CMHC Forecast

Figure 4

Multiple-family Housing Starts



Source: CMHC, CMHC Forecast

Multi-family Starts Poised for Further Gains in 2007

While Winnipeg is not renowned for high levels of multi-family activity in comparison to other major centres in Canada, activity has been on an upswing with starts exceeding 600 units on an annual basis since 2003. About 60 per cent of these starts have been for rental tenure with the remainder being condominium units. In 2006, there were 1,040 multi-family starts across the Winnipeg Census Metropolitan Area, the strongest performance since 1998 when 1,498 multi-family dwellings were started across the capital region.

Across several census metropolitan areas across Canada, the rising cost of owning a single-detached home is causing buyers to increasingly consider the purchase of a semi-detached, row or apartment unit. The same phenomenon is now taking hold in Winnipeg since over half of the population is distributed within the first-time and move-up buyer age brackets. An examination of the absorption price of new homes reveals the relative price advantage of multi-family condominiums versus single-detached units. In 2006, about 65 per cent of the single-detached dwellings absorbed were priced above $225,000. Meanwhile, nearly three-quarter of the condominium units were priced below $220,000.

The strength of multi-family construction has been maintained through the first quarter of 2007. Through the first three months of this year, a total of 335 multi-family starts were recorded across the Winnipeg CMA compared to 155 units over the same period last year. A comparison between the City of Winnipeg building permit data and CMHC's multi-family starts shows that over the 2005 and 2006 period, permits exceeded starts by 762 units. Moreover, through the first three months of 2007, permits have been taken out for the construction of an additional 473 multi-family units. It is anticipated that at least some of these units will begin construction prior to year-end bringing the full year total of multi-family starts in 2007 to 1,350 units. Continued demand for condominium units from first-time buyers and empty nester households will result in another 1,250 multi-family starts in 2008. This will be the first time since the 1986 to 1988 period that annual multi-family starts will have eclipsed the 1,000 unit level for three consecutive years.

Resale Market

Demand remains robust, price gains continue

In 2006, transactions in the Winnipeg resale market reached a record 11,594 units, an increase of nearly two per cent from 2005. The higher activity was a result of demand and supply side

factors. Demand was robust due to low mortgage rates, a positive job climate and continued growth in the number of households. On the supply side, an increase in the number of active listings from 2005 to 2006 provided a greater selection for buyers seeking to purchase a home in the resale market. Despite the increase in listings, supply barely kept pace with demand thereby causing the average resale price to jump from $137,602 in 2005 to $154,607 in 2006, representing an increase of 12.8 per cent.

The positive demand factors from 2006 are still in place and continue to affect resale activity in the capital region. As a result, the robust tempo of sales will be maintained over the forecast period. Through the first three months of the year, total transactions are 4.5 per cent ahead of last year's activity. The high pace of sales is facilitating a steady turnover in listings. While slipping below the July 2006 peak, active listings still remain among the highest levels seen in the past four years. Higher listings have contributed to a moderation in the growth rate of the average price. The average resale price after the first quarter of 2007 was $159, 051, up 8.3 per cent from the first quarter of 2006. CMHC is forecasting total resale activity across Winnipeg to rise to 11,750 units in 2007 and reach 12,000 units in 2008. The average resale price is projected to increase from $168,000 in 2007 to $180,000 in 2008.

Rental Market

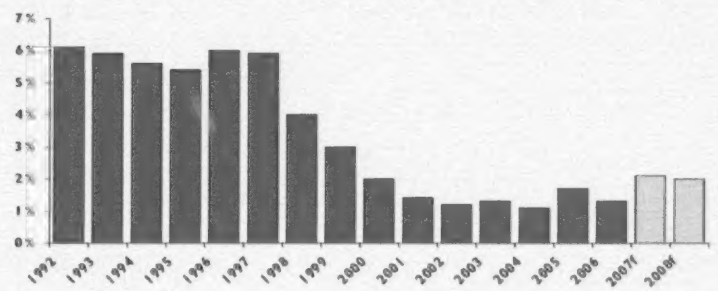
Modest increase in vacancy rate anticipated

CMHC's October 2006 Rental Market Survey revealed that the rental apartment vacancy rate across the Winnipeg Census Metropolitan area declined from 1.7 per cent in October 2005 to 1.3 per cent in October 2006. This marked the sixth consecutive year that the vacancy rate was below two per cent. The decline in the vacancy rate was due to no major gains in rental supply between the 2005 and 2006 surveys and higher demand resulting from the arrival of new immigrant renter households and the creation of new renter households from the existing population. While demand for rental housing will continued to be bolstered by immigrants and new household creation, the anticipated completion of several new rental projects over the next few months will push the apartment vacancy rate up to 2.1 per cent by October 2007.

According to Manitoba Finance's Residential Tenancies Branch, the 2007 rent increase guideline, effective January 1, 2007 is 2.5 per cent. Landlords can apply for a larger increase if they can demonstrate that the guideline amount will not be sufficient to cover cost increases which have been incurred. There are also the following exceptions to the guidelines: premises renting for $1,050 or more per month as of December 31, 2006; personal care homes; approved rehabilitated rental units; new buildings less than 15 years old where an occupancy permit was first issued or a unit was first occupied after April 9 2001; and new buildings less than 20 years old where an occupancy permit was first issued or a unit was first occupied after March 7, 2005. CMHC is forecasting the average rent for a two-bedroom apartment to rise from $709 in October 2006 to $735 in October 2007 and reach $760 in October 2008.

Figure 5

Apartment Vacancy Rate



Source: CMHC, CMHC Forecast

Economic Overview

A number of factors will contribute to Winnipeg's solid economic performance through 2008, the most notable being private and public investment. The total value of building permits jumped 32 per cent from 2005 to 2006 to reach a record $914 million. After the first two months of 2007, permits were nearly 10 per cent ahead of the same value a year earlier.

Despite a healthy pace of economic growth, the rate of job creation in Winnipeg will be comparatively weak due to persistent labour shortages. Nonetheless, the pace of job creation will surpass that of the province for the next few years. Following a two per cent employment gain in 2006, payrolls will expand by around 1.5 one per cent annually through 2008, pushing the unemployment rate below 4.5 per cent over the forecast period. Given the tight labour market conditions across the CMA, most if not all of the jobs created will be full-time positions. To the end of March, 6,200 full-time jobs have been created on a year-over-year basis, substantially higher than the 1,200 new part-time jobs created during the same time period.

The Winnipeg CMA will also continue to benefit from the provincial government's efforts to address the skilled labour shortage. A new tuition rebate program combined with the CMA's low unemployment rate should help stem the outflow of migrants to other provinces in the coming years. Meanwhile, the Provincial Nominee Program to attract immigrants will enjoy continued success through 2008, yielding among the strongest rates of international migration on record. The influx of migrants will boost retail sales as well as the demand for housing.

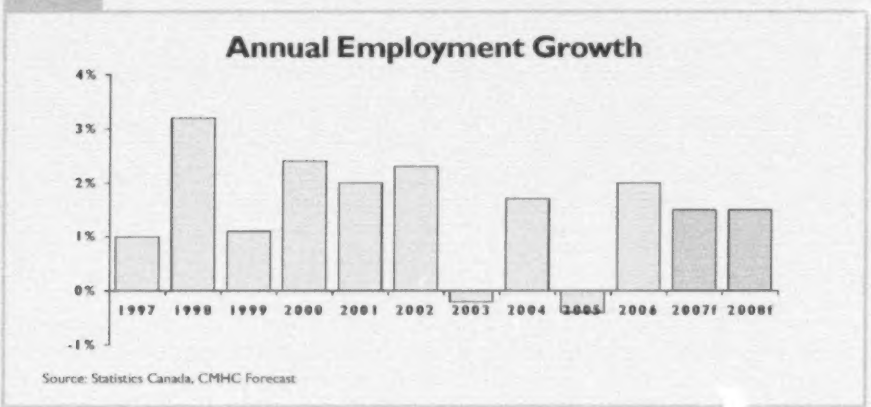
Mortgage Rates remain low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Figure 6



Source: Statistics Canada, CMHC Forecast

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Forecast Summary Winnipeg CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	10,797	11,415	11,594	11,750	1.3	12,000	2.1
MLS® New Listings	13,186	14,002	14,786	15,250	3.1	15,500	1.6
MLS® Average Price ($)	121,925	137,062	154,607	168,000	8.7	180,000	7.1
New Home Market							
Starts:							
Single-Detached	1,882	1,756	1,737	1,650	-5.0	1,650	0.0
Multiples	607	830	1,040	1,350	29.8	1,250	-7.4
Starts - Total	2,489	2,586	2,777	3,000	8.0	2,900	-3.3
Average Price ($):							
Single-Detached	232,032	252,252	268,104	300,000	11.9	325,000	8.3
New Housing Price Index (% chg.)	6.6	8.5	9.4	8.0	-	7.0	-
Rental Market							
October Vacancy Rate (%)	1.1	1.7	1.3	2.1	-	2.0	-
Two-bedroom Average Rent (October) ($)	664	683	709	735	3.7	760	3.4
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	-	6.29	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	-	6.80	-
Annual Employment Level	376,300	374,700	382,200	388,000	1.5	394,000	1.5
Employment Growth (%)	1.7	-0.4	2.0	1.5	-	1.5	-
Unemployment rate (%)	5.5	4.8	4.6	4.5	-	4.4	-
Net Migration	3,660	481	637	2,000	-	2,000	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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